Dis-Chem counts the cost of labour strikes – Business Tech 7

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Retail healthcare and pharmacy group Dis-Chem has published its interim results for the six months ended August 2019, reporting a 13.2% increase in revenue, though total profits for the year were down significantly.

Group revenue jumped to R11.85 billion over the period, up from R10.46 billion before. Gross profit, net of cost of sales, was up slightly (2.7%) at R2.6 billion, but higher operating costs due to once-off expenses relating to a labour strike, ate into net profits.

Headline earnings per share of 31.0 cents, was down 40.1% from 51.7 cents per share before.

Earnings before taxation was at R388 million (down 37%), while total profit for the year was down 37.4% to R282 million. The group declared an interim dividend of 12.8 cents per share.

Dis-Chem founder and chief executive officer, Ivan Saltzman, said he was pleased the group managed to grow revenues in an "extremely tough trading environment".

This growth together with the continued roll out of more than 20 stores led to market share gains in all of its core categories.

Speaking on the group's operational costs, he said that this set of half year results is the last to be impacted by once off strike-related items which, once eliminated, will highlight the group's cost containment efforts.

"The labour issues that led to strikes across two consecutive financial years have been settled and we are actively rebuilding the relationship with distribution staff so that they understand the culture of our brand and our commitment to values that I, together with my partners, have built over many years," Saltzman said.

The costs related to the strike are included under 'other expenses ', which grew by 16.5% over the corresponding period, to R2.7 billion.

This increase is partly due to the change in the group's bonus policy relating to employee's 13th cheques. Previously the group expensed the full bonus amount when paid in December of each year.

The bonus is now evenly accrued throughout the financial period due to its guaranteed nature. The effect of the change has resulted in the recognition of R75 million in 1H20.

Additional strike-related costs (additional security and payroll) incurred between the FY19 year end and the conclusion of the strike on 10th April was approximately R19 million.

“Excluding these once-off costs, expenses would have grown by 12.4% over the corresponding period, lower than the growth in revenue of 13.2%, and corroborates our commitment to cost management,” the group said.

Outlook

Looking ahead, Dis-Chem said that it expects consumers to remain under pressure as a result of the current macroeconomic environment.

However, it said that it operates in some resilient markets with a strong brand positioning, which will offer a certain amount of protection against the weak environment.

If there is any turn in fortunes that sees the economy improving, Dis-Chem said it is well positioned to benefit from any additional consumer disposable income.

In addition to 20 stores that have opened over the period in review, four more stores have since been added, and an additional seven store openings are planned through to February 2020, it said.

The group is also gearing up to be a significant player in the National Health Insurance plan.

“NHI’s aim is for affordable access to healthcare and we expect that this will frame a change in the consumption of care in the private space going forward,” Saltzman said.

“It is no secret that we have the largest and most consistent clinic offering and we are expanding the service scope of our clinic sisters as well as investing in telemedicine technology across our 310 clinics to increase the reach and reduce the costs of specialist services for patients.

“I am excited about the fruition of my vision for Dis-Chem, to play a significant role in bringing affordable healthcare to the many South Africans that are in need,” he said.

Share price

In early trade on Thursday (7 November), Dis-Chem’s shares were trading 4.9% higher at R24.00 a share.

The group’s shares are down 16.4%, year-to-date.